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ABSTRACT

The exclusion of Stanford University endowment investment in securities of corporations that have assets within the Republic of South Africa is examined, and a financial cost and benefit analysis of the situation is presented. The study indicates that if divestment were implemented Stanford would be required to sell approximately $125 million in endowment assets, including the securities of 59 corporations in 21 different industries. Divestment would mean eliminating those company's securities that the University's investment managers believe are the most lucrative. It is shown that the portion of annual dividends originating from assets within South Africa is estimated at $25,000 compared to a total dividend return in 1976 of $8,900,000. Over 99 percent of the earnings were found to be unrelated to the issue of South Africa but would be eliminated from Stanford's return by divestment. It is also suggested that excluding investments in companies on other than financial criteria would jeopardize philanthropic contributions from these companies. Appended are a list of the top 50 Standard and Poor's 500 stocks by market value, the market value of Stanford's investments in the securities of companies with assets in South Africa, a summary of the impact of exclusion by industry fields, and computation of transaction costs. (Author/SF)

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ED176674

EXCLUSION OF INVESTMENTS IN SECURITIES OF CORPORATIONS WITH ASSETS WITHIN THE REPUBLIC OF SOUTH AFRICA

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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An Analysis
by the Office of the Director of Finance

October 1977

HE 011 803

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Summary

It has been proposed that Stanford permanently exclude from its endowment investments in securities of corporations that have assets within the Republic of South Africa. Stanford's Trustees have requested a financial cost and benefit analysis of the proposal. This report contains the analysis.

Our research has indicated that there are 318 designated companies with assets within the Republic of South Africa. Of these companies, 111 represent about one-half of the market value of that group of representative common stocks known as the Standard and Poor's 500 stocks, a widely accepted representative grouping of the entire stock market in the United States. The designated companies are concentrated in 31 industry categories, including virtually all the stock value of companies in 6 industries. The six industry categories are as follows:

1. Automotive
2. Chemicals
3. Electric Equipment
4. Office Equipment
5. International Oils
6. Drugs

Stanford currently has twenty-five percent of its equity portfolio invested in the first five industry categories on the above list.

Implementation of the proposal would require divestment of about $125 million of endowment assets. Stanford would have to sell the securities of 59 corporations, in 21 different industries. About thirty-seven percent of the market value of our stock holdings would have to be eliminated. In the process of selling, we would be forced to totally eliminate and exclude five industry categories, as noted above. We would be required to sell ninety-five percent or more of our holdings in a total of ten industry categories. The securities eliminated in each industry would be those company's securities which our investment managers currently believe are the best to hold for investment purposes.

Stanford's investment securities have been selected to meet the institution's need for adequate income and growth in value. The financial effect of corporate investment within South Africa is immaterial to the return of Stanford's investment securities. That portion of annual dividends that originated from corporate assets within South Africa is about $25,000, compared to a total dividend return in 1976 of $8,900,000. Said another way, the contribution to earnings of all but a couple companies from assets in South Africa is less than one percent. Over ninety-nine percent of earnings are unrelated to the issue of South Africa, but would be eliminated from Stanford's return by implementation of the divestment proposal.

A consideration of proposed divestment, and subsequent exclusion, of designated investment securities begins with an assessment of probable transaction costs. Our analysis has led us to observe that transaction costs are only one of the costs involved. Total transaction costs of divestment and exclusion are estimated to be not less than $1,400,000. Very likely, transaction costs would be much more. Our analysis of such costs includes a determination of both the one-time transaction costs for divestment and subsequent reinvestment and the incremental costs associated with investing in a more limited, less liquid marketplace of allowable securities. This latter cost occurs because, in the event of divestment and subsequent exclusion of designated companies, the limited selection of possible replacements would have one-half the market value that now exists, with available securities typically in smaller capitalized companies that require increased spreads (transaction costs) to buy and sell.

A more significant cost associated with this proposal is the probable diminution in value of the endowment due to the constraints placed upon our professional investment managers. Stanford's endowment have consistently outperformed the market during the last eight years. Over this period the stocks in Merged Endowment Pools A and B have ranked in the top 1% and 3%, respectively, in comparative performance analysis of 3600 major funds. During 1976, the value added by superior management was an additional $8.3 million in return above comparable market indices. If divestment were pursued, the reduced range of investment choices and loss of diversification would produce a major restructuring of our portfolio. The restructuring would greatly reduce the likelihood of our professional investment managers continuing their superior performance. It is not unreasonable to assume the result could be no value added by the managers.

Another potential cost results from divestment and exclusion of designated companies. The restructured endowment portfolio would be much less diverse, with elimination of five industries and partial elimination of about fifteen more. Such action would appear to raise serious questions with the fiduciary responsibilities of our Trustees and the laws that exist to both govern and protect Stanford University as an endowed institution. Our analysis did not extend to the point of attempting to quantify what might be these costs, but we note this as an issue of significant concern.

Stanford is an eleemosynary institution that relies heavily on philanthropy. A policy of maintaining a list of designated companies for exclusion from investment would create significant risk that future gift receipts would be reduced. The designated companies have in the past given Stanford $19,600,000. Currently, these same companies have outstanding pledges of $3,500,000. About one-half of the gift receipts in Stanford's major corporate gifts program have come from designated companies. Excluding investments in companies on other than financial criteria would likely create doubt as to whether Stanford, in competition with other universities, should continue to deserve financial support. Moreover, it is probable that the corporations would be offended if they were not given an opportunity to individually describe their roles within South Africa.

Adoption of a designated list of excluded companies could also jeopardize gift receipts from living individuals and other sources. A significant portion of all personal gifts of securities during the last three years were in securities of the 111 designated companies. These gifts amounted to $18,900,000 over the same three year period. Again, exclusion of company securities on other than financial criteria creates doubt as to whether Stanford is a sufficiently deserving steward of charitable gifts.

A less significant financial cost can be identified in regard to Stanford's security loan program, wherein we lend securities we hold to brokers. This program is a source of incremental unrestricted income, which would be reduced by exclusion of designated securities.

A non-financial consequence of divestment worth noting is that Stanford would also relinquish its voting rights in the proxy proposals put before the designated companies.

Background information

1. 318 companies were identified as "firms with assets in South Africa".

2. Of these 318, 111 are included in the Standard and Poor's 500 common stock index. We have used the S&P 500 and the reduced "S&P 389" to analyze diversification and expected return.

3. Stanford University owns 1,625,641 shares of common and preferred stock in 49 of these 111 companies. Market value on July 31, 1977 for these shares is approximately $72,250,000, thirty-seven percent of our total stock investment.

4. Stanford University owns $16,531,000 (market value) of long term debt obligations in 12 of these 111 companies.

5. On July 31, 1977, Stanford University held approximately $36,000,000 of commercial paper issued by 9 of these 111 companies.

I. Identification of "firms operating within South Africa" - Designated Companies

To resolve the definitional problems implicit in identifying "firms operating within South Africa" we began with the May, 1976 list provided by the American Consulate General in South Africa and the compilation for South Africa in 1975 given in the 8th edition of the Directory of American Firms Operating in Foreign Countries. The following is a paragraph from the introduction to the Directory which contains a brief explanation of the selection criteria.

> This Directory includes only those companies in which American firms or individuals have a substantial direct capital investment. Foreign firms operating under contract, license, or on a commission basis, where no actual American capital is involved, or those in which American firms participate solely on a royalty or profit-sharing basis, are omitted. Non-commercial enterprises and institutions such as churches, missions, schools and hospitals that are financed or operated by American charitable or religious organizations have also been omitted.

We then made the following additions:

1. Six banks known to have loaned monies to the South African government and/or its corporations were added to the list.

2. Three companies were added that were not in the Directory but were known to have substantial business dealings in South Africa. These were Standard Oil Company of California, Texaco, and Caterpillar Tractor. They have made investments since the Directory was compiled, or their participation in South Africa is indirect through partial ownership of some other corporation.

We did not delete Bethlehem Steel from the list despite their response to an inquiry sent by U. C. Berkeley indicating that they should not be included. Therefore, a more rigorously researched list may not include that particular company.

In total we identified 318 companies, which we refer to in this analysis as "designated companies".

II. Characteristics of Stanford's Investment in Designated Companies

The securities in Stanford's investment portfolio have been selected to meet our need for substantial growth in value and for an adequate and reasonably predictable income. In general terms, at a specified degree of market risk, we seek to maximize total return (dividends and capital gains) to our investments. The portfolio is broadly diversified with securities of 128 companies and representation in 35 industries. Each security in the portfolio is selected with the aid of a substantial amount of professional research. Currently, Stanford's portfolio contains the securities of 59 designated companies in 21 industries with a total market value of about $125 million.

The earnings which each designated company realizes from assets within South Africa are inseparably commingled with the company's entire earnings. Thus, dividends which Stanford receives from the designated companies do not contain a separate dividend from the South African assets. Divestment of securities would result in divestment of the dividends derived from all of the companies' non-South African investments.

The performance of corporate investments within South Africa is not material to the financial performance of Stanford's investments. The proportion of each company's investments within South Africa is typically a few tenths of one percent, nearly always less than one percent. For example, Stanford's investment in the common stock of Ford had a recent market value of $6.9 million. The total corporate earnings associated with this stock during the past year is about $1.1 million. Since Ford's assets within South Africa are 0.003 of Ford's total investments, the commingled portion of Stanford's Ford dividends that originated from South African assets is about $1,500. Divestment of our Ford stock holdings would necessarily mean elimination of our investment and the return therefrom, of which over ninety-nine percent is unrelated to the issue of South Africa.

The commingled portion of all Stanford's annual dividends that originated from assets within South Africa is roughly about $25,000, certainly no more than $45,000, compared to a total portfolio dividend return in 1976 of $8,900,000.

III. Effects of Divestment and Subsequent Exclusion of Designated Companies

The effects of divestment and exclusion of South African related securities fall into at least four separate categories: (A) Reduced Investment Choices, (B) Effects on Fund Raising (Gift Receipts), (C) Transaction Costs and (D) Other. The effects of the first two appear to be of much more significance than item (C) transaction costs. In the following analysis, we attempt to quantify costs where possible, with estimates and ranges noted.

(A) Reduced Investment Choices

In an attempt to determine the consequences of excluding designated companies, we compared our list of securities with the overall stock market. One hundred and eleven (111) of the 318 designated companies are present in the Standard and Poor's Index of 500 common stocks (usually referred to as the S&P 500). This Index is a widely accepted surrogate for the stock market and a well diversified selection of stocks. Its current market value is about $625 billion, about 80 percent of the value of all stocks on the New York Stock Exchange.

Our analysis focused on the exclusion of the 111 companies from the S&P 500. The reader should note that the effects of excluding the additional 207 designated companies have not been analyzed.

The 111 companies are not randomly distributed. Rather they tend to cluster in certain industries and in almost all cases are very large multi-national firms. After their exclusion, the market place of Stanford's investment opportunities would be one-half as large. Instead of 40 industries to evaluate, there would be only 34, and 25 of these would be reduced in size. One can assume that there would be diminished opportunities for diversification in investments of comparable quality. Clearly, it would be difficult to document that an adequate opportunity for investment diversification exists with the remainder.

The remaining collection of stocks and debt instruments would differ greatly from Stanford's previous investment market with respect to growth, industry representation and weighting, risk characteristics, and market liquidity of the securities involved. These factors would have a large effect on Stanford's future portfolio returns, and make more difficult the selection of "prudent" investments within the fiduciary context.

During and over the past eight years, our investment managers have consistently evidenced superior security selection and consequent market returns. This has been done acting on investment criteria that touch upon financial return and related risk. Last year, for example, the extra return attributable to management was $8,300,000. Possible and expected loss of future incremental returns is one of the consequences of excluding designated companies.

Background Information

1. Capitalization and Liquidity - The 111 firms combined represent over 46% of the total market value of the S&P 500. Of the top 50 companies ranked by total value, 29 are in the possible divestment universe. (See Appendix I). These 29 companies alone represent 12.5% of the recent New York Stock Exchange daily volume. These factors are what led to the projected increased transaction costs due to the widening of the average bid-ask spread.

2. Industry Diversification - The Summary in Appendix III shows the effect of possible equity divestment across industries for both the S&P 500 and Stanford's portfolio. Notice the third column under "S&P 500". This gives the market value of the designated stocks from that industry divided by the total market value of the industry. This shows which industries would be largely excluded from future investment consideration. Six of these (autos, chemicals, drugs, electric equipment and office equipment, and international oils) have more than 80% of the industry capitalization excluded. As an example, in the auto industry American Motors, Chrysler, Ford, G. M., and White Motor are included in the 111; only Cummins Engine Inc. and Fruehauf Corporation are not. Regardless of the investment attractiveness of these issues, Stanford's future representation in the auto industry would have to be small.

Note the third column under "Stanford". This shows the market value of the designated stocks we hold divided by our total holdings in that industry. As can be seen, divestment would force greater than 95% turnover in 10 industries and 100% turnover in six. Those six industries alone represent over 20% of Stanford's equity portfolio. Our holdings in those industries were largely chosen by our Fund Manager, and the transaction cost of their turnover is outlined in Section C.

3. Fund Manager - Our Fund Manager has consistently earned superior market returns over the past eight years. Although this may not continue into the future, this management resulted in an additional return on equity last year of 4.08% ($3.7 million) in Merged Endowment Pool-A and 1.68% ($4.6 million) in Merged Endowment Pool-B. Analysis has shown that this return, obtained over and above general movements in the market, is attributable to selecting individual stocks that perform better than the average. If this is true, then the divestment of the issues selected by our Fund Manager may involve a substantial cost. Similarly, the research activities of Capital Guardian are understandably dominated by the large capitalization firms that we could not consider. Therefore, that research could decrease in both quality and quantity. Any realization of continued superior results in the future would be made more difficult by the on-going constraints of divestment, that is, with only half as much market value to consider, near elimination of six significant industries and partial elimination of ~~fifteen~~ 20 more industries.

B
(A) Effects on Fund Raising and Gift Receipts

Another identifiable cost of divestment and exclusion of selected company securities is the probable reduction in future gift receipts. It is reasonable to assume that corporate giving from the designated companies would be diminished. Stanford also receives gifts of stock in the designated companies from individuals, foundations and the like. There are a number of very large gifts that have been made in stock of designated companies. It is uncertain whether or not a policy of exclusion would preclude all such gifts, but we would expect that number would be reduced significantly. This is even more likely if a policy was

adopted that precluded holding certain stocks, since in many cases Stanford has found it desirable and necessary to retain stocks given to us, the more so when regulatory authorities require that this be done.

To give a sense of the magnitude of gift receipts in question, gifts from designated companies to Stanford have amounted to a total of $19,600,000. In addition, gifts of securities in the designated companies from individuals, even just the past three years, come to an additional amount of $18,900,000.

As a related concern, Stanford relies heavily on volunteers to solicit gifts. Though no count was taken, it is likely that some number of volunteers (also knows as interested alumni) are employed by designated companies. A policy of discrimination against these companies would likely have an effect on the willingness of such volunteers to help Stanford.

Background Information

1. Thirty-two of the designated companies have given to Stanford, with gifts totalling $19,600,000. Of this total, $5,300,000 was received during the past three fiscal years, and currently there are outstanding pledges of $3,500,000 from designated companies. Designated companies have contributed about half of Stanford's gift receipts in the major corporate gift category.

2. A review of gift receipts over the last three years evidences that living individuals have given Stanford $18,900,000 in securities of designated companies. Many of those securities have been retained, and typically can be sold only in limited quantities over time, and even then only once Stanford satisfies and is in compliance with appropriate regulatory bodies.

3. As part of Stanford's post-campaign efforts, the Development Office currently is endeavoring to seek substantial increases in the amount of gifts given by corporations and living individuals. The consequences of adopting the divestment policy would be expected to have a chilling effect on the results of these efforts.

(C) Transactions Costs

This would include all brokerage and bank fees for the sale and subsequent repurchase of alternative investments, as well as the on-going transaction cost increases due to the restrictions placed on the investment size and variety of the investment market place. Their total amount is about $1.4 million.

Background Information

1. One-time divestment costs - See Appendix IV.

   a. Brokerage fees - the calculations below were made subject to these following assumed costs:

      . Eight cents per share of stock not separately held.
      . Ten cents per share of stock separately held.
      . 3/16ths point (.001875) of market value on all bonds.
      . No cost on commercial paper.

      These figures are representative of the costs Stanford has historically experienced. Eight cents a share is a minimum. Actual fees could well be in a range of ten to twelve cents, or more. The higher figure for the separately held stock is due to the smaller lot size and lack of liquidity in some of these issues. At the minimum rates, the divestment of the assets listed in Appendix II and the subsequent reinvestment of the assets in similar non-restricted securities would be $331,500.

   b. Bid-ask spread - Because the price necessary to buy a security is slightly higher than the price one can obtain by selling the security, each round trip into and out of the securities market requires the investor to absorb this bid-ask spread. These costs are similar in magnitude to the formal brokerage fees, and were calculated subject to the following assumed costs:

      . 1/8 (12.5¢) per share on stock not separately held.
      . 3/16 (18.75¢) per share on stock separately held.
      . 1/4 point (.0025) of market value on the bonds.
      . no cost on commercial paper.

      Divestment of the securities listed in Appendix II and subsequent reinvestment of the proceeds would cost Stanford approximately $259,200. Again, these costs are minimums, with actual costs possible up to 50% higher.

   c. Banking fees - Stanford's custodial arrangement calls for payment to be based in part on the number and type of transactions that occur. The increase in bank fees to perform the divestment and reinvestment would be approximately $32,000.

      These calculations indicate that the total one-time transaction cost for divestment and the subsequent reinvestment would be approximately $622,000.

2. Perpetual bid-ask expense

Exclusion of the 111 companies from investment consideration would result in a higher concentration of Stanford's assets in less liquid securities. Therefore, the average bid-ask spread will be wider, resulting in an additional cost each year proportional to the value of securities traded. The yearly expenses can be conservatively estimated using the following assumptions:

a. Increase of 1/8 (12.5¢) per share on non-separately held stock.

b. Increase of 1/8 (12.5¢) per share of separately held stock.

c. Increase of 1/16 pt. (.000625) of market value for all bonds.

d. The above figures apply only to those securities which would be divested.

e. Annual turnover of all securities would be approximately $125 million per year. This further assumes that the portfolio will not increase in value.

The above assumptions result in an average shift for the entire portfolio average of 1/16th point (.000625) for a yearly minimum expense increase of $78,000. The present value of this regular, annually recurring cost is about $780,000.

(D) Other

It has been noted that a policy of exclusion of designated companies would be expected to result in a diminution in value of the endowment. This, in turn, brings forth the concern about Stanford's, and the Board of Trustees, fiduciary duty to seek a maximum financial return. The conscious act of reduce this return, for non-financial reasons, would appear to raise serious questions under the laws that are applicable to Stanford University. Although we raise this issue, we have not attempted to quantify the consequent costs.

Stanford earns unrestricted income by lending securities and investing the collateral in short term instruments during the period of the loan. If the designated securities could be loaned a greater percent of the time than the securities that would replace them in Stanford's portfolio, an income loss would occur.

Background Information

1. Twenty-five percent of all security lending revenue last year was derived from issues of the 111 companies.

2. This represented about $75,000 in unrestricted income which would be lost if we no longer held these securities.

3. This total would be partly or totally offset by the loan of the issues purchased to replace those divested.

4. Voting rights in the designated companies would be relinquised. There would be no financial effect from loss of these voting rights.

Appendix I

Top 50 Standard and Poor's 500 Stocks by Market Value

Company Name	Market Value 6/30/77	Percent of the S&P 500	Cumulative Percent	Cumulative Percent-South Africa
1. *Intl Business Machines	39792.0	6.36	6.36	6.36%
2. American Telephone & Tel.	38439.5	6.15	12.51	6.36%
3. *Exxon Corp.	23607.1	3.77	16.28	10.13%
4. *General Motors Corp.	19870.1	3.18	19.46	13.31%
5. *General Electric Co.	12773.8	2.04	21.50	15.35%
6. *Eastman Kodak	9452.6	1.51	23.01	16.86%
7. Sears, Roebuck & Co.	9231.2	1.48	24.49	16.86%
8. Standard Oil Co. of Ind.	7873.0	1.26	25.75	16.86%
9. *Texaco Inc.	7783.0	1.24	26.99	18.10%
10. Royal Dutch	7739.6	1.24	28.23	18.10%
11.*Atlantic Richfield	7324.6	1.17	29.40	19.27%
12.*Mobil Oil Corp.	7169.8	1.15	30.55	20.42%
13.*Standard Oil Co. of Calif.	7133.2	1.14	31.69	21.56%
14. Proctor & Gamble	6608.4	1.06	32.75	21.56%
15.*Dow Chemical Co.	6296.8	1.01	33.75	22.57%
16. Schlumberger, Ltd.	5866.4	0.94	34.69	22.57%
17. Minnesota Mining & Mfg.	5670.2	0.91	35.60	22.57%
18.*Du Pont de Nemours	5546.3	0.89	36.48	23.46%
19.*Gulf Oil Corp.	5424.9	0.87	37.35	24.33%
20.*Caterpillar Tractor	4878.9	0.78	38.13	25.11%
21. Shell Oil	4818.5	0.77	38.90	25.11%
22.*Phillips Petroleum	4804.3	0.77	39.67	25.88%
23.*Intl. Tel & Tel Corp.	4630.8	0.74	40.41	26.62%
24.*American Home Produc	4550.0	0.73	41.14	27.35%
25. Coca-Cola Co.	4536.0	0.73	41.86	27.35%
26.*Weyerhaeuser Co.	4530.4	0.72	42.59	28.07%
27.*Ford Motor Co.	4347.5	0.70	43.28	28.77%
28. General Tele.	4276.5	0.68	43.97	28.77%
29.*Merck & Co. Inc.	4206.6	0.67	44.64	29.44%
30.*Johnson & Johnson	4157.8	0.66	45.30	30.11%
31.*Getty Oil Co.	4005.8	0.64	45.95	30.74%
32. Halliburton	3902.4	0.62	46.57	30.74%
33.*Xerox Corp.	3820.1	0.61	47.18	31.35%
34. Continental Oil Co.	3605.5	0.58	47.76	31.35%
35. Kresge SS	3540.4	0.57	48.32	31.35%
36.*Bankamerica Corp.	3531.1	0.56	48.89	31.91%
37. Citicorp	3368.1	0.54	49.43	31.91%
38. Philip Morris, Inc.	3334.0	0.53	49.96	31.91%
39.*U.S. Steel Corp.	3191.1	0.51	50.47	32.42%
40. Georgia Pacific Corp.	3119.7	0.50	50.97	32.42%
41. Reynolds R. J. Industries	3081.3	0.49	51.46	32.42%
42.*Union Carbide Corp.	3005.9	0.48	51.94	32.90%
43. Avon Products Inc.	2928.5	0.47	52.41	32.90%
44.*American Express Co.	2871.4	0.46	52.87	33.36%
45. Union Pacific Corp.	2681.9	0.43	53.30	33.36%
46.*Lilly Eli & Co	2669.3	0.43	53.72	33.79%
47.*Monsanto Co	2550.4	0.41	54.13	34.20%
48.*Burroughs Corp	2481.0	0.40	54.53	34.60%
49. Internat'l Paper	2410.9	0.39	54.91	34.60%
50. RCA	2334.5	0.37	55.29	34.60%

* Firms operating in South Africa.

7/31/1977

Market value of Stanford investments in the securities of companies with assets in the Republic of South Africa

Corporation	$ Total	Stocks		Bonds and Notes ($)	Commercial Paper ($)
		#Shares	$ Value		
1. Chrysler	$12,000,000	-			$12,000,000
2. Ford Motor	11,861,485	152,487	$6,785,672	$5,075,813	-
3. IBM	10,326,217	38,513	10,326,217	-	-
4. Hewlett Packard	9,483,091	119,472	9,483,091	-	-
5. Sperry Rand	7,556,065	65,709	2,299,815	1,256,250	4,000,000
6. General Motor	5,156,208	61,137	4,164,958	991,250	-
7. Motorola	5,021,625	500	21,625	-	-
8. First National City Bank	5,000,000	-	-	-	5,000,000
9. Manufacturer Hanover	5,000,000	-	-	-	5,000,000
10. Morgan Guaranty	5,000,000	-	-	-	5,000,000
11. General Electric	4,518,399	83,097	4,518,399	-	-
12. NCR Corp.	4,338,750	50,000	2,168,750	2,170,000	-
13. Goodyear	3,654,863	176,138	3,654,863	-	-
14. Armco Steel	3,471,000	142,400	3,471,000	-	-
15. Bank of America	3,428,641	98,625	2,428,641	-	1,000,000
16. Tenneco	3,173,208	79,416	2,620,708	552,500	-
17. Union Carbide	3,134,325	59,700	2,820,825	313,500	-
18. Firestone	2,935,125	156,540	2,935,125	-	-
19. Eastman Kodak	2,523,638	43,511	2,523,638	-	-
20. Boeing	2,260,000	40,000	2,260,000	-	-
21. Bethlehem Steel	2,194,025	92,380	2,194,025	-	-
22. Bendix Corp.	2,092,500	-	-	2,092,500	-
23. J I Case	2,000,000	-	-	-	2,000,000
24. E I Dupont	1,929,938	-	-	1,929,938	-
25. American Express	1,820,351	48,367	1,820,351	-	-
26. Colt Industries	1,729,750	34,000	1,729,750	-	-
27. Richardson Merrell	1,558,725	200	6,525	1,552,500	-
28. Clark Equipment	1,531,875	-	531,875	-	1,000,000
29. Xerox	1,105,496	21,891	1,105,496	-	-
30. Borg Warner	1,000,000	-	-	-	1,000,000
31. Rohm & Haas	793,125	750	793,125	-	-
32. Exxon	733,385	14,206	733,385	-	-
33. Hamischfeger Corp.	277,000	13,850	277,000	-	-
34. Timken	213,000	4,000	213,000	-	-
35. TRW	164,430	2,030	164,430	-	-
36. A O Smith	102,175	6,700	102,175	-	-
37. Newmont Mining	100,550	1,900	100,550	-	-
38. Mobil Oil	95,725	1,400	95,725	-	-
39. U. S. Steel	67,063	1,850	67,063	-	-
40. Owens Corning Fiberglass	53,600	800	53,600	-	-
41. Gulf Oil	49,470	1,940	49,470	-	-
42. Bristol Myers	47,250	1,400	47,250	-	-
43. Westinghouse	46,237	1,210	24,956	21,281	-
44. Lykes Corp.	41,788	3,300	41,788	-	-
45. Parker Pen	37,525	1,900	37,525	-	-
46. Del Monte	24,400	845	24,400	-	-
47. Deere and Co.	23,875	-	-	23,875	-
48. Upjohn	20,725	-	-	20,725	-
49. Atlantic Richfield	20,625	300	20,625	-	-

Corporation	$ Total	#Shares	Stocks	Bonds and Notes	Commercial Paper
50. Internat'l. Harvester	17,700	600	17,700	-	-
51. Chase Manhattan	16,000	500	16,000	-	-
52. Rockwell Internat'l.	15,381	535	15,381	-	-
53. Pfizer	10,450	400	10,450	-	-
54. Revlon	8,995	227	8,995	-	-
55. American Home Products	8,475	300	8,475	-	-
56. Johns Manville	7,300	200	7,300	-	-
57. Dow Chemical	6,300	200	6,300	-	-
58. Burlington Industries	4,700	200	4,700	-	-
59. Eli Lilly	533	15	533	-	-
TOTALS	$124,812,382	1,625,641	$72,281,375	$16,531,007	$36,000,000

Appendix III - Impact of Exclusion by Industry

Industry	Standard and Poor's 500 # cos. in S.A.*/ # cos. in ind.	% of total MV**	% of ind. excl.	% of total MV excl.	Stanford University # cos. in S.A.*/ # cos. in ind.	% of total MV**	% of ind. excl.	% of total MV excl.
1. Aerospace	5/9	1.26	69.25	.87	3/4	1.30	98.99	1.28
2. Auto parts - Accessories	6/15	1.34	49.73	.67	4/5	3.84	98.67	3.79
3. Automotive - cars & trucks	5/7	4.19	96.97	4.06	2/2	6.10	100.00	6.10
4. Beverages	3/13	1.81	17.04	.31	-	--	---	--
5. Building - Forest products	1/6	1.63	44.57	.73	-	--	---	--
6. Building - Materials	4/22	1.22	28.14	.34	1/3	.09	33.52	.03
7. Chemicals	8/16	4.22	83.49	3.52	3/6	4.46	35.65	1.59
8. Communication - Telephone	0/5	7.19	0.00	0.00	0/4	4.80	---	--
9. Consumer Durables	2/9	.90	19.56	.18	0/1	.01	---	--
10. Consumer-Hsehold. Products	1/6	2.59	11.55	.30	0/2	.05	---	--
11. Consumer-Other non-durable	4/8	2.61	75.20	1 96	2/2	1.41	100.00	1.41
12. Containers	1/11	.64	8.67	.06	2/2	1.59	---	---
13. Drugs	10/15	4.66	86.25	4.02	4/5	.77	5.13	.04
14. Electric Equipment	3/7	2.91	81.42	2.37	2/2	2.53	100.00	2.53
15. Electronics	3/12	1.58	35.96	.57	2/5	7.13	74.20	5.29
16. Food - Pkg. & Process	7/28	3.37	35.66	1.20	3/3	.04	100.00	.04
17. Lodging & Restaurants	0/11	.68	0.00	.00	-	--	---	--
18. Machinery - General	6/22	1.65	74.15	1.22	1/2	.91	96.17	.88
19. Machinery - Special	4/14	1.03	60.46	.62	1/3	1.60	0.61	.01
20. Media - Audio Visual Print	3/20	1.43	10.76	.15	-/5	6.85	---	--
21. Metals - Alum. & Copper	1/8	.99	11.76	.12	-/3	.93	---	--
22. - Misc.	2/20	1.68	14.54	.24	1/4	.15	9.87	.01
23. - Steel	4/9	1.21	70.84	.86	3/7	5.05	63.36	34.40
24. Office Equipment	7/9	8.29	96.08	7.97	4/4	8.86	100.00	8.86
25. Oil - Service & equipm	0/10	2.38	0.00	.00	-/1	1.59	---	--
26. - Domestic	4/12	6.43	44.15	2.84	1/5	7.29	1.81	.13
27. - International	5/6	9.41	86.85	8.17	5/6	4.51	99.90	4.50
28. Paper	2/8	1.29	22.99	.30	-/5	3.88	---	--
29. Retail sales	0/27	4.11	0.00	.00	-/4	.75	---	--
30. Textile - Prods. & Apparel	1/15	.42	25.86	.11	1/5	1.49	0.18	.00
31. Tobacco	0/4	1.27	0.00	.00	-/1	.21	---	--
32. Misc.	2/20	1.61	53.73	.87	-	--	---	--
Sub-total	104/404	86.00	41.11	44.62	44/101	78.19	44.00	34.40
33. Finance - Banks	3/16	2.65	34.28	.91	2/2	1.36	100.00	1.36
34. - Insurance	1/17	2.78	16.52	.46	1/5	6.65	15.25	1.01
35. - Other	1/7	.57	6.02	.03	-/4	2.45	---	--
36. Transportation - Air	2/6	.42	21.19	.09	-/3	3.33	---	--
37. - Rail	0/10	1.42	0.00	.00	-/2	.47	---	--
38. - Truck	0/4	.24	0.00	.00	-	--	---	--
39. Utilities - Electric	0/22	4.31	0.00	.00	-/6	4.85	---	--
40 - Natural Gas	0/14	1.57	0.00	.00	-/5	2.72	---	--
TOTAL all Industries	111/500	99.96	34.67	46.11	47/128	100.02	36.76	36.77

* S.A. = Republic of South Africa
**MV = Market value

Appendix IV - Computation of Transaction Costs

1. One-time brokerage cost

   a. shares not separately held*

   1,390,325 x .16 = $222,452

   b. shares separately held

   235,316 x .20 = 47,063

   c. bonds and notes

   16,531,007 x .00325 = 61,991

   sub-total $331,506

2. One-time bid-ask spread

   a. 1,390,325 x .125 = $173,790

   b. 235,316 x .20 = 44,121

   c. 16,531,007 x .0025 = 41,327

   sub-total $259,238

3. One-time bank fees = $ 32,000

   TOTAL one-time cost = $622,744

4. Perpetual Bid-Ask spread

   Average price per share = $33

   a. fraction of share value = 1/8 ÷ 33 = .003788

   b. fraction of bond value - 1/16 ÷ 100 = .000625

   c. weighted average for entire portfolio

   = .003788 x 72 million = $272,736

   + .000625 x 16.5 million = 10,312

   $283,048

   ÷ 450 million total ≅ .000625

   125,000,000 x .000625 = $ 78,125

   Present value discounted at 10% $781,250

* large blocks of more liquid securities
separately held securities are generally fewer in number and less liquid